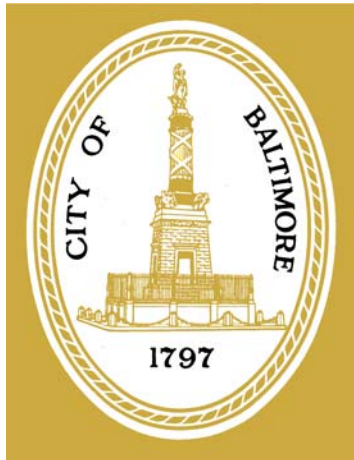


INDEPENDENT AUDITOR'S REPORT

THE BOARD OF LIQUOR LICENSE COMMISSIONERS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2001 AND 2000



**City of Baltimore
Department of Audits**

**AUDIT REPORT
THE BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000**

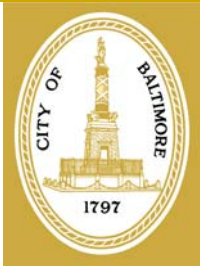
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ANNUAL FINANCIAL REPORT
ON
THE BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2001 AND 2000

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
City Auditor

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Baltimore, Maryland 21202
Telephone: (410) 396-4783
Telefax: (410) 545-3961

INDEPENDENT AUDITOR'S REPORT

March 29, 2002

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates
City of Baltimore

We have audited Exhibit A, the Board of Liquor License Commissioners' Comparative Statement of Revenues Collected and Expenditures Arising from Cash Transactions for Fiscal Years Ended June 30, 2001 and 2000. This financial statement is the responsibility of the Board of Liquor License Commissioners' management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenue collected and expenses paid during the fiscal years ended June 30, 2001 and 2000, on the basis of accounting described in Note 2.

Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The supporting schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statement. Such

information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2002, on our consideration of the Board of Liquor License Commissioners' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the Board of Liquor License Commissioners, State of Maryland, and the City of Baltimore management. However, this report is a matter of public record, and its distribution is not limited.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

EXHIBIT A

BOARD OF LIQUOR LICENSE COMMISSIONERS
 COMPARATIVE STATEMENT OF REVENUES COLLECTED AND EXPENDITURES
 ARISING FROM CASH TRANSACTIONS
 FOR FISCAL YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000	NET CHANGE INCREASE (DECREASE)
	<u> </u>	<u> </u>	<u> </u>
Gross Revenues:			
Alcoholic Beverage Licenses.....	\$ 1,708,655	\$ 1,507,929	\$ 200,726
Liquor Board Advertising Fees.....	84,053	82,100	1,953
Liquor Board Fines.....	138,617	73,581	65,036
Liquor Board Late Renewal Fees.....	21,575	33,200	(11,625)
Liquor Board Reporting Fees.....	<u>1,662</u>	<u>2,452</u>	<u>(790)</u>
Total Gross Revenues.....	<u>\$ 1,954,562</u>	<u>\$ 1,699,262</u>	<u>\$ 255,300</u>
Expenditures:			
Salaries.....	\$ 1,034,417	\$ 1,012,502	\$ 21,915
Other Personnel Costs.....	294,453	276,704	17,749
Contractual Services.....	130,475	137,114	(6,639)
Materials and Supplies.....	5,981	11,672	(5,691)
Equipment - Replacement.....	<u>6,163</u>	<u>25,153</u>	<u>(18,990)</u>
Total Expenditures.....	<u>\$ 1,471,489</u>	<u>\$ 1,463,145</u>	<u>\$ 8,344</u>
Excess of Revenues	<u>\$ 483,073</u>	<u>\$ 236,117</u>	<u>\$ 246,956</u>

See notes to financial statement.

BOARD OF LIQUOR LICENSE COMMISSIONERS
Notes to Financial Statement

1. Background

The Board of Liquor License Commissioners for Baltimore City (Board) is an agency of the State of Maryland and therefore is not subject to the direct supervision of the Mayor and City Council. However, the revenues from issuance of licenses are remitted to the City of Baltimore (City), and all expenses of the Board are paid by the City.

Under the provisions of the Annotated Code of Maryland Article 2B, Section 10-202, the Board has the responsibility to assure all applicants meet the requirements for issuing licenses before certificates are issued. All licensing fees are paid directly to the Baltimore City's Director of Finance.

As of June 1, 1999, the Board became the licensing and regulatory agency for adult entertainment businesses. The jurisdiction was transferred from the Department of Housing and Community Development through City of Baltimore Ordinance 99-417, Council Bill 98-859.

2. Significant Accounting Policies

The Board's policy is to prepare its financial statement on the cash basis; consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statement does not purport to present financial position and results of operations on the accrual basis of accounting.

Encumbrances charged to the Board's appropriation accounts are not reflected in the financial statement.

3. Rates of License Fees

The following license fee rates were in effect for fiscal year 2001. Several rates were increased as a result of legislative changes which became effective as of October 1, 2000.

<u>License Class and Description</u>		<u>Symbol</u>	<u>Prior Rate</u>	<u>New Rate</u>
<i>Beer and Light Wine</i>				
Class A	Off Sale - Package Goods	WA	\$100	\$110
Class A	Off Sale - Supplemental to WA (per Sunday)	WAS	25	50
Class B	On Sale - Restaurant	WB	150	165
Class C	On Sale - Club	WC	75	82.50
Class C	On Sale - One Day	WS	25	25
Class D	On Sale - Tavern	WD	150	165

<u>License Class and Description</u>		<u>Symbol</u>	<u>Prior Rate</u>	<u>New Rate</u>
<i>Beer, Wine and Liquor</i>				
Class A	Off Sale - Package Goods	LA	\$650	\$715
Class A-2	Off Sale - Package Goods	LA-2	650	715
Class A	Off Sale - Supplemental to LA (per Sunday)	LAS	25	50
Class B	On Sale - Restaurant	LB	1,000	1,100
Class B	On Sale - Hotel and Motel	LBHM	5,000	5,500
Class B	On Sale - Arena License	LBAL	5,000	10,000
Class B	On Sale - Racetrack (per day)	LBRL	50	55
Class C	On Sale - Club	LC	500	550
Class C	On Sale - One Day	LS	50	50
Class D	On Sale - Tavern	LD	625	687.50
Class BD-7	On Sale - Special License (including amusement license)	LBD7	1,200	1,320

The following annual license fees are also applicable:

Adult entertainment establishments -	\$1,000
License extension -	100
Transfer license -	100
Advertising fee -	300
Substitution transaction -	150
Off-premises catering privileges (effective October 1, 2000) -	500

The Board has the authority to assess a late charge at the rate of \$50 per day for each day that an application for renewal is filed late. The late charge assessed may not exceed \$1,500. Applications for renewal must be filed during the month of March each year.

BOARD OF LIQUOR LICENSE COMMISSIONERS
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000

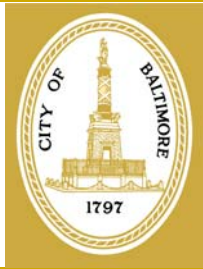
	2001			2000		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Net Revenues:						
Alcoholic Beverage Licenses.....	\$ 1,650,000	\$ 1,708,655	\$ 58,655	\$ 1,440,000	\$ 1,507,929	\$ 67,929
Liquor Board Advertising Fees.....	76,000	84,053	8,053	78,000	82,100	4,100
Liquor Board Fines.....	100,000	138,617	38,617	100,000	73,581	(26,419)
Liquor Board Late Renewal Fees.....		21,575	21,575		33,200	33,200
Liquor Board Reporting Fees.....		1,662	1,662		2,452	2,452
Total Revenues.....	<u>\$ 1,826,000</u>	<u>\$ 1,954,562</u>	<u>\$ 128,562</u>	<u>\$ 1,618,000</u>	<u>\$ 1,699,262</u>	<u>\$ 81,262</u>
Expenditures and Encumbrances:						
Salaries and Wages.....	\$ 1,018,782	\$ 1,035,082	\$ (16,300)	\$ 975,646	\$ 987,774	\$ (12,128)
Other Personnel Costs.....	288,893	292,902	(4,009)	242,471	273,204	(30,733)
Contractual Services.....	136,879	130,475	6,404	167,000	134,492	32,508
Materials and Supplies.....	7,000	5,981	1,019	8,100	11,672	(3,572)
Furniture and Equipment.....	4,000	(8,837)	12,837	2,000	(5,772)	7,772
Total Expenditures and Encumbrances.....	<u>\$ 1,455,554</u>	<u>\$ 1,455,603</u>	<u>\$ (49)</u>	<u>\$ 1,395,217</u>	<u>\$ 1,401,370</u>	<u>\$ (6,153)</u>
Excess of Revenues Over Expenditures and Encumbrances.....	<u>\$ 370,446</u>	<u>\$ 498,959</u>	<u>\$ 128,513</u>	<u>\$ 222,783</u>	<u>\$ 297,892</u>	<u>\$ 75,109</u>
Adjustments to Conform to Cash Basis:						
Elimination of Effect of Encumbrances.....		(15,000)			(33,547)	
Elimination of Effect of Accruals.....		(886)			(28,228)	
Excess of Revenues Over Expenditures - Cash Basis.....		<u>\$ 483,073</u>			<u>\$ 236,117</u>	

SCHEDULE II

BOARD OF LIQUOR LICENSE COMMISSIONERS
SUMMARY OF RECEIPTS AND DISBURSEMENTS OF APPEAL FEES ACCOUNT
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000

Cash Balance - July 1, 1999.....		\$ 1,502
Appeal Account Receipts - Appeal Fees Fiscal Year 2000.....	\$ 1,300	
Adjusted for 6/6/00 revenues deposited 7/25/00.....	<u>(100)</u>	<u>1,200</u>
Total To Be Accounted For.....		\$ 2,702
Disbursements:		
Bank Service Charges.....	\$ 30	
Payment Check #267.....	<u>95</u>	<u>125</u>
Cash Balance - June 30, 2000.....		<u><u>\$ 2,577</u></u>
Cash Balance - July 1, 2000.....		\$ 2,577
Appeal Account Receipts - Appeal Fees Fiscal Year 2001.....	\$ 700	
Adjusted for 6/6/00 revenues deposited 7/25/00.....	<u>100</u>	<u>800</u>
Total To Be Accounted For.....		\$ 3,377
Disbursements:		
Bank Service Charges.....	\$ 52	
Payments.....	<u>2,110</u>	<u>2,162</u>
Cash Balance - June 30, 2001.....		<u><u>\$ 1,215</u></u>

AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF A FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
FOR
THE BOARD OF LIQUOR LICENSE COMMISSIONERS
FOR THE FISCAL YEARS ENDED
JUNE 30, 2001 AND 2000



**AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF A FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

March 29, 2002

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates
City of Baltimore

We have audited Exhibit A, the Board of Liquor License Commissioners' Comparative Statement of Revenues Collected and Expenditures Arising from Cash Transactions for Fiscal Years Ended June 30, 2001 and 2000, and have issued our report thereon dated March 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Board of Liquor License Commissioners' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance which is described in the accompanying schedule of findings as CONDITION I.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board of Liquor License Commissioners' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial

reporting that, in our judgment, could adversely affect the Board of Liquor License Commissioners' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable conditions are described in the accompanying schedule of internal control findings as CONDITIONS II and III.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

We noted other matters involving the internal control over financial reporting and its operation that are reported as CONDITIONS IV through VI in the accompanying schedule of internal control findings. We also followed up on certain matters which were discussed in our prior audit report. We are reporting on these matters in Attachment I of this report.

This report is intended solely for the information and use of the Board of Liquor License Commissioners, State of Maryland, and the City of Baltimore management. However, the report is a matter of public record, and its distribution is not limited.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

SCHEDULE OF FINDINGS OF NONCOMPLIANCE

IMMATERIAL INSTANCE OF NONCOMPLIANCE

CONDITION I – NEW LICENSE FEES WERE NOT PRORATED

The Board of Liquor License Commissioners (Board) did not adhere to policies established by the Maryland Annotated Code regarding the collection of prorated license fees for new licensees. For the fourteen new licenses that were issued during fiscal year 2001, two were assessed at the full amount rather than at prorated amounts based on their issuance date. There were also two licenses for which the fees were prorated, but the proration was erroneously based on previous rates no longer in effect. New license fee rates went into effect October 1, 2000, and these two licenses were issued after this date. In total, the Board collected net excess revenues in the amount of \$6,825.

According to Maryland Annotated Code, Article 2B, Section 10-207:

“The fee for every license issued for a period of less than one year (except temporary or special licenses) shall be subject to the annual fee if issued during the first three months of the license year, three fourths of the annual fee if issued during the second quarter of the license year, one half of the annual fee if issued during the third quarter of the license year and one fourth of the annual fee if issued during the fourth quarter of the license year.”

When new license fees are not prorated appropriately and in accordance with the code, licensees are overcharged, and the Board collects excess revenues. We recommend that the Board adhere to the prorating rules for applicable license fees. Supervisory monitoring and review should be included in the procedures concerning the issuance of new licenses. Additionally, the \$6,825 in net overcharged license fees should be returned to the specific licensees.

SCHEDULE OF INTERNAL CONTROL FINDINGS

REPORTABLE CONDITIONS INVOLVING INTERNAL CONTROLS

CONDITION II – ADEQUATE SEGREGATION OF DUTIES WAS NOT MAINTAINED

Adequate segregation of duties was not maintained regarding the work performed by an employee in the Board's administrative section. The duties of the Accounting Assistant II include: maintaining revenue records; preparing the Monthly Budget Reports; performing the revenue reconciliations; preparing cash deposit slips and delivering revenues to the City's Collections Division; retrieving the agency copies of licenses from the Collections Division; maintaining the Appeals checking account; maintaining the Inspectors' Expense checking account; and, issuing reimbursement checks to inspectors. The responsibility for these duties concentrated in a single employee subjects the agency to the risk that abuse or theft could occur and not be detected by agency staff.

Properly designed and implemented internal controls include adequate segregation of duties to reduce the opportunities for someone to both perpetrate and conceal errors or irregularities in the normal course of performing his or her duties. Typically, an entity achieves adequate segregation of duties by establishing controls to prevent any person from having uncontrolled access to both assets and records. Inadequate internal controls increase the risk of misappropriation of funds or other abuses.

We recommend that the Board segregate these duties assigned to its administrative staff in an effort to achieve and maintain adequate internal controls. The administrative section is comprised of two management and five staff members. Duties involving control of assets, including preparation of cash deposit slips, delivering revenues to the Collections Division, and maintaining the Appeals Fees and Inspectors' Expense accounts should be reassigned from the Accounting Assistant to other staff members.

CONDITION III – THERE WAS A LACK OF ADEQUATE INTERNAL CONTROLS OVER REIMBURSEMENT OF INSPECTORS' EXPENSES

The Board did not adhere to policies and procedures established by the City regarding the reimbursement of inspectors' expenses. We reviewed each of the inspector reimbursements during the months of December 2000 (eight items) and June 2001 (ten items). We noted twenty-one exceptions related to these reimbursements that included expenses which were not supported by receipts, expenses that were not valid/appropriate, or, expenses that were not properly authorized/approved by the Assistant Inspector Supervisor.

The City's Administrative Manual (sections 240-5, 240-6, 240-10, and 240-11) establishes the policies and procedures for the reimbursement of employee expenses. These policies indicate that valid support is required before employee reimbursement can be provided. Although inspectors submitted expense reports which included items without supporting documentation, the Board approved and reimbursed these expenses.

For certain assignments, inspectors were reimbursed with per diem amounts. There are no written policies or procedures to document this as an acceptable method of reimbursement. No supporting documentation, such as receipts, was on file for the per diem amounts paid to inspectors.

We recommend that the Board implement procedures to ensure that reimbursed expenses are allowable, reasonable and supported by adequate documentation. We recommend that inspectors' expenditures, for which there are no receipts, be documented on a standard liquor board form created for that purpose. Additionally, we recommend that the Board prepare written procedures covering the reimbursement of inspectors' expenses. These procedures should address reimbursement of inspectors' expenses through use of the City's Employee Expense Report as well as the Board's newly established petty cash fund, and include coverage for per diem reimbursements. Reimbursement of expenses should be reviewed, approved and submitted to the Bureau of Accounting and Payroll Services timely.

OTHER MATTERS INVOLVING INTERNAL CONTROLS

CONDITION IV – RECEIPTS FOR CANCELED FEES WERE NOT ALWAYS PROPERLY VOIDED

During our review of license fees and fines revenue collected by the Board during fiscal year 2001, we noted an instance where the customer receipt maintained by the Board was not properly voided. The receipt was issued for payment of a substitution fee. Substitution fees are recorded in the Advertising Fees account.

Receipts are prepared for certain fees paid by licensees to the Board. These receipts include information as to amount received, type of payment (cash or check), date received, payee, fee type, business address, and signature of Board personnel receiving the fee. The receipt maintained in the Board's records indicated that the fee was properly paid and received. However, the City's records indicated this receipt was voided.

We recommend that the Board review its internal controls over fee collections and ensure that its personnel follow appropriate procedures for issuing, accounting for, and voiding receipts. All voided receipts should be noted accordingly and should indicate supervisory approval of the void. We also recommend increased supervisory monitoring to ensure that existing internal controls over fee collections are in effect and functioning properly.

CONDITION V – CHECKING ACCOUNT WAS NOT RECONCILED TO THE BANK STATEMENT BALANCE AT JUNE 30, 2001

The Inspectors' Expense checking account records were not reconciled to the bank statement at June 30, 2001, or throughout the audit period. The information recorded in the checkbook was often incomplete, such as the lack of check dates.

As recommended in the prior audit, the responsibility for maintaining the Inspectors' Expense checking account was transferred from the Accounting Assistant II. The Assistant Inspector Supervisor was given this duty. However, monthly reconciliations were still not performed. Maintenance of this checking account did not improve.

As of February 2002, the Board closed this bank account. Accordingly, we do not make any recommendations specific to this account. However, a petty cash fund has been established which will be used to reimburse certain inspectors' expenses. We recommend, therefore, that the Board maintain the petty cash fund appropriately, including monthly reconciliation to the fund amount and retainage of expense documentation.

CONDITION VI – LEAVE TIME NOTED ON THE PAYROLL ATTENDANCE REPORTS IS
NOT SUPPORTED BY APPROVED LEAVE REQUEST FORMS

The Board of Liquor License Commissioners did not adhere to policies and procedures established by the City regarding the maintenance of payroll attendance records and related supporting documentation. We selected one pay period during fiscal year 2001 and reviewed the payroll and its support for each of the Board's employees. We found exceptions involving lack of supporting documentation for leave usage and lack of adherence to sign-in/out procedures.

According to the Administrative Manual of the City of Baltimore, Section 204-17, all agencies are required to keep a detailed record of each employee's attendance. There must be documentation on file to support the information in the attendance record. Copies of Payroll Attendance Reports (PARs) alone are insufficient as evidence of employee time and attendance.

For eight of the forty-one employees included in the pay period selected, leave time recorded on the Payroll Attendance Report was not supported by leave request forms. For three of the eight employees, unsupported leave usage was for more than one day. Additionally, there were forty-two instances where employees did not record their time in or out.

We recommend that the Board implement internal controls to provide support for the attendance of all its employees, including approved leave requests and adherence to sign-in/out procedures. This may be accomplished through the following:

- Enforcement of the sign-in/sign-out policy indicating times of arrival and departure as well as time of call-out from employees in the field.
- Leave time used and compensatory time earned should be indicated on the sign-in/out attendance sheet in an area designated for that purpose.
- Completed leave request and compensatory time earned forms should be kept on file for all leave time indicated on the PARs, including sick time. Appropriate approval signatures should be obtained for each leave request form.
- The payroll clerk should record attendance information on each employee's Attendance Record as required by the City's Administrative Manual.

The above mentioned records should be maintained by the payroll clerk in an orderly fashion and retained in the Board's files for a minimum of three years or until the audit for that fiscal year has been performed, whichever is later.

ATTACHMENT I
BOARD OF LIQUOR LICENSE COMMISSIONERS
FISCAL YEAR ENDED JUNE 30, 2001
STATUS OF PRIOR YEAR'S
FINDINGS AND RECOMMENDATIONS

(Findings not considered to have a material effect
on the financial statement)

ATTACHMENT I

BOARD OF LIQUOR LICENSE COMMISSIONERS FISCAL YEAR ENDED JUNE 30, 2001 STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

Condition I – Adequate Segregation Of Duties Was Not Maintained

As part of our fiscal year 2000 audit, we found that there was a lack of segregation of duties regarding the work performed by the Accounting Assistant II. Her duties included: maintaining revenue records; preparing the Monthly Budget Reports; performing the revenue reconciliations; preparing cash deposit slips and delivering revenues to the City's Collections Division; retrieving the agency copies of licenses from the Collections Division; maintaining the Appeals checking account; maintaining the Inspectors' Expense checking account; and, issuing reimbursement checks to inspectors.

Current Audit Status

Responsibility for the Inspectors' Expense checking account was transferred to other staff. However, the responsibility for the other duties remained with her. Therefore, we noted a similar finding during fiscal year 2001 and have included this as Condition II in this report.

Condition II - New License Fees Were Not Prorated

As part of our fiscal year 2000 audit, we found that the Board did not adhere to policies established by the Maryland Annotated Code regarding the collection of prorated license fees for new licensees. In total, the Board collected excess revenues in the amount of \$2,875.

Current Audit Status

No action was taken concerning the \$2,875 in excess license fees collected. Additionally, we noted a similar finding related to new license fees during fiscal year 2001 and have included this as Condition I in this report.

Condition III – Required Documentation Regarding Zoning Approval And Fire Department Inspection Was Missing From A New Licensee's File

As part of our fiscal year 2000 audit, we found that for one of the new licenses, there was no documentation in the licensee's file that the required Zoning approval or Fire Department inspection had been obtained.

Current Audit Status

We did not find any instances of this condition during fiscal year 2001. This finding has been resolved.

Condition IV – Underlying Time Records Did Not Support Payroll Attendance Report Information

As part of our fiscal year 2000 audit, we found that the Board did not adhere to policies and procedures established by the City regarding the maintenance of payroll attendance records and related supporting documentation.

Current Audit Status

We noted a similar finding during fiscal year 2001 and have included this as Condition VI in this report.

Condition V – There Was A Lack Of Adequate Internal Controls Over The Reimbursement Of Inspectors' Expenses

As part of our fiscal year 2000 audit, we noted that inspectors' expense reports included expenses that were not supported by adequate documentation, were not submitted on a timely basis and included non-work related mileage.

Current Audit Status

Prior audit recommendations related to per diem reimbursements, undocumented expenditures, and reimbursement for a parking fine have not been implemented. Additionally, we noted similar findings related to inspectors' expenses during fiscal year 2001 and have included these in Condition III in this report.

Condition VI - Checking Account Was Not Reconciled To The Bank Statement Balance At June 30, 2000

As part of our fiscal year 2000 audit, we found that the Inspectors' Expense checking account was not reconciled to the bank statement at June 30, 2000.

Current Audit Status

We noted a similar finding during fiscal year 2001 and have included this as Condition V in this report. This account was closed by the Board as of February 2002.

Prior Status – Data Processing Services Were Not Properly Procured

In its fiscal year 2000 response, the Board did not address the previous year's unresolved finding related to procurement of computer software and training.

Current Audit Status

The terms of this procurement have still not been fully implemented as provided for in the purchase agreement. However, the Board has decided to abandon full implementation of the provisions of this purchase. Accordingly, there will be no office-wide implementation of the potential capabilities provided by this purchased software. Therefore, further software installation and training to fulfill the purchase terms are not needed. The Board should provide a written response concerning the status of this computer-related procurement.

EXIT CONFERENCE

An exit conference was held at the offices of the Board of Liquor License Commissioners on April 25, 2002. Those in attendance were:

Nathan C. Irby, Jr.
Jane M. Schroeder
Michael R. Maguire
Jack P. Evans
Beverly L. Reich

Board of Liquor License Commissioners
Board of Liquor License Commissioners
Baltimore City Department of Audits
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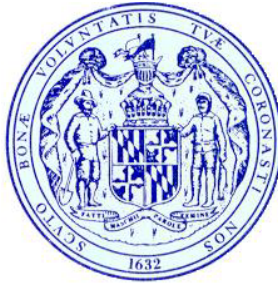
Audit findings and recommendations were discussed. The Board of Liquor License Commissioners responded in writing to this audit report. The Board's response is included as Appendix I of this report.

APPENDIX I

BOARD OF LIQUOR LICENSE COMMISSIONERS' RESPONSE TO THIS REPORT

LEONARD R. SKOLNIK
CHAIRMAN

CLAUDIA L. BROWN
WILLIAM A. WELCH, JR.



NATHAN C. IRBY, JR.
EXECUTIVE SECRETARY

JANE M. SCHROEDER
DEPUTY EXECUTIVE SECRETARY

STATE OF MARYLAND

BOARD OF LIQUOR LICENSE COMMISSIONERS

FOR BALTIMORE CITY
SUITE 200, 10 SOUTH STREET
BALTIMORE, MARYLAND 21202-3258
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May 7, 2002

Yvonda D. Brooks, CPA
City Auditor
321 City Hall
100 N. Holliday Street
Baltimore, Maryland 21202

Dear Ms. Brooks:

In response to the findings of noncompliance during the audit of this agency for fiscal year 2001, the following information is provided:

CONDITION I – NEW LICENSE FEES WERE NOT PRORATED

This condition was reported and identified to the agency as a problem in last year's audit. At the time that it was brought to the attention of staff, however, the licenses identified in this year's audit had already been issued. It was, therefore, impossible to correct the problem before this audit.

CONDITION II – ADEQUATE SEGREGATION OF DUTIES WAS NOT MAINTAINED

The agency has made every attempt to segregate the duties of the Accounting Assistant II concerning the collection, recordation and reconciliation of agency funds. The agency administrative staff consists of only seven employees. Considering that two staff members are involved in public hearings every week and another is often involved in court appearances for either this agency or the State Comptroller's Office, the office is sometimes staffed by only three employees. It is impossible, given the number of administrative employees in this agency, to separate these functions every single day. We will, however, continue to make every effort possible to address this issue.

While the number of licenses issued in the city has decreased, new legislation and additional responsibilities have resulted in increased paperwork for the agency. One example is that during renewal, the agency works closely with the Sales Tax Compliance Office of the State

Comptroller to hold the renewal licenses of those licensees who have outstanding state tax liabilities. This office notified licensees in February that their license will be held. In March, their renewals are flagged and during April, their licenses are held until released by the Sales Tax Office. In March 2001, approximately three hundred licenses were handled in this manner. In March 2002, approximately five hundred licenses of the 1550 licenses in the city were held for some outstanding problem. For each held license, there are letters sent and filed as well as numerous phone calls until the problems are resolved and a license may be released. When this duty was assumed and the Adult Entertainment license responsibility was assumed, there was no increase in agency staff.

A number of steps have already been taken as a result of the 2000 fiscal year audit to address the segregation of duties. Both the Inspector's Expense checking account and the Appeal's checking account have been closed. Deposit slips are now always checked and countersigned by another employee, usually one of the two agency administrators. As much as possible, the Accounting Assistant II does not write receipts. An additional clerical position was requested and approved for the fiscal year 2002. As of April 2002, that person is now in place and there will now be an analysis, separation and reassignment of duties concerning the collection and recordation of fees. An initial meeting has already taken place with representatives of the Mayor's Office of Information Technology to develop a better way of tracking deposits and funds collected by the Bureau of Collections.

CONDITION III – THERE WAS A LACK OF ADEQUATE INTERNAL CONTROLS OVER REIMBURSEMENT OF INSPECTORS' EXPENSE

To address the issues of continuing improvement of "internal controls" regarding Inspector's reimbursement practices, the unit has instituted submission of all requests for expense reimbursement directly to the city; thereby ending the use and maintenance of an agency checking account. It is difficult to respond to the noted twenty-one exceptions, related to these reimbursements that included expenses which were not supported by receipts, expenses that were not valid/appropriate, or in the absence of any specifics. We are confident that if there were any errors, our current practices shall remedy past omissions.

CONDITION IV – RECEIPTS FOR CANCELED FEES WERE NOT ALWAYS PROPERLY VOIDED

Agency administrative staff will address this matter both with a review of the proper procedure for the recordation and/or refund of fees and a written procedure outlining the same. The procedure will also address the proper manner of voiding a receipt and accounting for such voided or missing receipt numbers on the deposit slip. During this fiscal year, over \$245,000 was collected at the Liquor Board's office and this was the only incident of this type.

One matter currently under discussion with the Mayor's Office of Information Technology is the possibility and feasibility of an on-line connection with the Bureau of Collection so that all agency fees are collected there with immediate notification to the agency verifying payment.

CONDITION V – CHECKING ACCOUNT WAS NOT RECONCILED TO THE BANK STATEMENT BALANCE AT JUNE 30, 2001

Agency staff acknowledges that the Inspectors' Expenses checking account statements were not reconciled. The account has been closed and all agency expenses are now submitted directly to the Bureau of Disbursements.

CONDITION VI – LEAVE TIME NOTED ON THE PAYROLL ATTENDANCE REPORTS IS NOT SUPPORTED BY APPROVED LEAVE REQUEST FORMS

The agency administrative staff has placed great importance on having employees sign in and out on a daily basis and completing slips for various types of leave. Unfortunately, the pay period selected for review was the week of the Thanksgiving holiday and the payroll supervisor's calendar which is used as a backup for payroll markings was lost during an extended period in which the office was painted. For the individuals who used more than one day of leave not supported by a leave slip, at least one of the incidents was due to a parent's house being destroyed by a fire. We feel very strongly that these findings are not typical of the agency's everyday practices.

FOLLOW UP ON DATA SYSTEM

The Board will take no further action concerning the data system developed for the agency by the Chief Inspector. That system is presently used by the Inspection Division for tracking complaints and making maps

It is our intention to formalize a long range plan to address the data needs of the agency and to access existing data from other city and state agencies so as not to duplicate the collection of such information. For example, the Board must verify that licensees have paid tangible personal property taxes. As part of the renewal process, we require licensees to provide a receipt or clearance from the Bureau of Collections. We have just learned that there is presently a report generated by the city for the Bureau of Business Licenses of the Circuit Court which shows the status of such payments. For now, we will begin working with a paper printout of this report to verify payment of these taxes which are not legally due until June 30th of each year. In the future, on-line access to this information would eliminate a great deal of duplicative paperwork

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for not only this agency but also for the Business License Bureau and Bureau of Collections during a very busy, hectic time of the year.

Very truly yours,

Nathan C. Irby, Jr.
Executive Secretary

NCI/cc